

**Remarks of Ambassador Charlene Barshefsky
Chicago Council on Foreign Relations**

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Good afternoon. Thank you, John, and thank you all for coming.

I am of course a Chicago native, and I can tell you that some things never change. When I left for college, Chicago was the "City that Works," and Daley was the Mayor. Today -- well, you get the idea.

I am very happy to be here with the Council this afternoon, to discuss the trade agenda we have set for the next few years. And I am particularly pleased because I came directly from a visit to my old high school, Von Steuben High.

If anybody ever complains to you about kids today, don't believe them. Whenever I am able to talk with young people, I am very impressed. They are sophisticated. They know a lot about the world. As I've heard from the teachers and administrators at Von Steuben, they have the advantage of local governments and school systems that are creative and determined to provide not only the world's best substantive education, but through programs like Chicago's Service Requirement, to make sure they grow up understanding their responsibilities to their families and their neighborhoods.

VALUE OF U.S. LEADERSHIP

That is a quality our next generation will need very badly. Because more than ever before, nations around the world are looking to us for leadership.

To ensure the world's prosperity and growth, both now in the face of the financial crisis and as we look further ahead.

To keep the peace, in regions as far away and as different as Kosovo, Cambodia and Central Africa.

To address the world's environmental problems, from climate change to the loss of species.

To promote basic values -- freedom; human rights; open society.

And while trade policy is, of course, an economic policy whose foundation is the national economic interest of the United States, it also touches upon each of these greater issues. And today I will discuss the record on which we build in trade policy, and the challenges we will face in the years ahead.

THE POSTWAR RECORD

Our modern trade policy begins fifty years ago, with the establishment of the GATT after World War II. In that half-century, we have reduced the world's tariffs by an average of 90%; eliminated many non-tariff trade barriers as well; created commonly accepted rules governing trade in goods, agriculture and services; and established a framework for peaceful resolution of disputes. In doing so, we have also advanced basic American values: personal freedom; rewards for hard work and innovation; and open markets under the rule of law.

And the results have vindicated these values in practice. Since 1960, trade has grown fifteen-fold, and world per capita income doubled. Regions of the world once known for wars and poverty -- Southeast Asia, Latin America, most recently Africa -- have developed at astonishing speed. China and Russia, great nations which once sought to overthrow the market system, now aspire to join. America's highest-skilled, highest-wage industries have boomed, with exports rising from \$617 billion to \$938 billion just since the Clinton Administration took office.

These blessings have extended from the world's richest to its poorest. The dissemination of new medicines has helped raise life expectancy from 48 years in 1955 to 65 today, and cut infant mortality from 148 per thousand to 59. With the growth in agricultural trade, famine has receded from all but the most remote corners of the world. New telecommunications and the Internet open worlds of information and opportunity to anyone with a computer terminal.

TRADE IN THE U.S. ECONOMY

Our leadership in trade has thus benefited the whole world. But it has also meant jobs, growth and living standards at home.

Between 1992 and 1997, our economy expanded from about \$7.2 trillion to \$8.1 trillion in real terms. Exports accounted for over one third, or about \$320 billion, of that growth; and for more than 2 million of the 15 million new jobs created under the Clinton Administration. That in turn means higher living standards, as jobs supported by goods exports are more productive and pay an average of 13% to 16% higher than the U.S. national average. It is no accident that in the last two years, average wages have risen from \$394 to \$438 per week.

Illinois has helped to lead the way. Our state's \$37 billion in goods exports last year nearly doubled the \$21 billion in goods we exported in 1992. One hundred and twenty-seven thousand Illinois workers, including nearly one in five manufacturing workers, are now employed because of exports, and the incomes of downstate soybean farmers and grain growers depend on nearly \$4 billion in farm exports.

In the future, exports will be still more important to Chicagoans and all Americans. Nearly 80% of world economic consumption, and 96% of world population, are beyond our borders. These are the firms, governments and people who buy American wheat, aircraft, and

Michael Jordan gear. If we can't sell to them, we will find ourselves poorer and less able to lead the world than we are today.

ASIAN FINANCIAL CRISIS

Where, then, do we go from here?

Well, we must begin with the issue immediately before us. As President Clinton has said, the events which began as a currency crisis in Southeast Asia last year have become the most dangerous financial crisis the world has faced in fifty years.

Its effects are obvious in our own export figures. Compared to last year, our exports to the Asia-Pacific region fell \$14 billion in the first six months of 1998. That includes a loss of \$4 billion, or 12%, in exports to Japan alone, and a loss of fully 70% of our exports to Indonesia. The result has been a drop of 2.5% in GDP growth for us this year, instability in financial markets, declining farm incomes, and the specter of job losses in manufacturing industry.

Therefore, our top priority is to work with the IMF and affected countries to restore currency stability and promote economic recovery. These IMF programs provide money conditioned on reform, and we monitoring the conditionality closely. In cases such as Thailand where the programs are being implemented, we see good signs.

However, resources at the IMF are at historic lows. Every day Congress does not approve the President's request for IMF funding increases our vulnerability to a crisis, and decreases confidence in global markets. The Senate has now approved full IMF funding by large bipartisan majorities twice, but there is a serious bottleneck in the House. At a time when the markets are looking to see if the international community has the capacity to deal with these crises, passage of IMF funding is critically important. The Congress needs to act immediately.

Equally important, Japan as the world's second-largest economy must act immediately, because economic stagnation in Japan makes recovery far more difficult for all of Asia. For example, as Thailand's exports to the United States rose by \$600 million in the first six months of 1997, Thai exports to Japan shrank from by nearly \$800 million. Indonesian exports to Japan have dropped by a third. We thus believe Japan must use fiscal stimulus to spur demand-led growth, address problems in the financial system, open its markets and deregulate its economy.

I have just returned myself from the President's meeting with Prime Minister Obuchi. This followed a visit to Tokyo, where I discussed both the financial crisis and our Enhanced Deregulation Initiative, including open distribution systems, transparent regulation and rule-making, and deregulation of telecommunications, financial services, housing, medical devices and pharmaceuticals. We will closely monitor Japan's implementation of these commitments and of our earlier agreements; as we continue to push for sustained fiscal stimulus to prevent recession, and urgent attention to the problems in the financial system.

And we are committed to an open market policy at home. We expect a very high trade deficit this year, including perhaps a record with Japan. As this happens, we will of course continue to enforce our domestic laws against unfair foreign export practices, and we will adopt sensible policies in the case of import surges. But we will remember the lesson of the 1930s, and -- as we ensure that countries like China, Argentina, Chile and Brazil do not respond by reverting to protectionism -- we will refuse to panic and shut off trade ourselves. That would only hurt our trade partners and worsen the crisis.

I. OPEN MARKETS

First, we need open markets. Today, foreign trade barriers, even today, remain higher -- much higher -- than ours. And it is only fair to expect others to give us the same access we offer to them. This is obvious, and it is at the foundation of almost all our trade negotiations, with particular countries, regions and multilaterally.

To be specific, during the Clinton Administration we have negotiated 260 trade agreements, from A for Albania to Z for Zimbabwe. These include 35 separate agreements with Japan, 13 with Canada and another 13 with the European Union, which altogether have helped raise our exports to these trade partners by more than \$115 billion.

We have also created five landmark multilateral trade agreements. Two -- the Uruguay Round Agreement, which established the World Trade Organization; and the NAFTA, which has ensured that our immediate neighbors are open to our products -- are very well known. But the other three, which we completed in 1997, are equally significant: the Financial Services Agreement, which creates open market commitments in financial sectors totalling more than \$33 trillion dollars; the Information Technology Agreement, removing tariffs and other barriers on more than \$1.5 trillion worth of trade in computers, semiconductors, computer equipment and other goods; and the Agreement on Basic Telecommunications, including 70 countries and over 95% of world telecom revenue in a \$750-billion industry. Together, they radically reduce barriers to information, communications, and finance; and thus lay a new foundation for a more open, progressive world economy in the next century.

Equally important to us is the enforcement of our agreements. Among the virtues of the World Trade Organization and the NAFTA are much improved dispute settlement mechanisms, which allow us to hold our partners more effectively to their commitments than we could in the past. The United States has been the most active country by far at the WTO: we have filed forty-one complaints. We have prevailed in 17 cases so far, winning in eight cases that have completed the panel process and successfully settling nine others. Likewise, we use domestic trade laws -- Section 301, Special 301 and others -- to ensure that we are treated fairly.

However, we have more work ahead. We still face high trade barriers in several fields, most of all in agriculture and services where the US is the world leader. The end of the Cold War and the revolution in science and technology have also changed the trade landscape. And as trade

has grown, the American public naturally is more concerned and interested in trade policy. Our strategy thus addresses four fundamental challenges.

MARKET-OPENING AGENDA

The first is further market-opening, with an emphasis on new regional arrangements but also by improving the rules of the world trade system. Let me briefly review the agenda:

1. Regional Initiatives

-- Our own hemisphere, before the NAFTA Mexico's tariffs averaged 10% while ours averaged 4%. The discrepancies we will address in the much broader Free Trade Area of the Americas -- negotiations began in earnest this month in Miami -- are even greater.

-- Asia, where through the Asia-Pacific Economic Cooperation forum we are looking toward free and open trade in the Pacific. This effort began with the Information Technology Agreement, and now is addressing nine different industrial sectors such as telecommunications, energy, environmental goods and services, which together account for \$1.5 trillion in trade, by November this year.

-- Africa, where our trade relations are only beginning to develop. But we are working to expand exports by organizing more frequent trade missions, negotiating bilateral agreements and more fully integrating African nations into the World Trade Organization.

-- Europe, where we are working to remove barriers and strengthen trade relations with the European Union. Technical trade barriers -- for example, the duplicative regulations, unnecessary paperwork, and other problems the Trans-Atlantic Business Dialogue has identified -- reduce the value of our exports to Europe by up to 2%, or \$3 billion last year. Through the Transatlantic Economic Partnership we began in London last May, we hope to address a number of remaining impediments to trans-Atlantic trade, as well as problem areas like agriculture. And we will ensure that the expansion of the EU to include Poland and other Central European countries -- which we support -- will not endanger American economic interests.

-- And the Middle East, where we have inaugurated a special program to increase inter-regional trade, starting with Israel and Jordan, so as to help the Middle Eastern countries find common interests and thereby support the peace process.

WTO Agenda

We will also launch negotiations next year at the WTO, when the United States hosts the third conference of the world's Trade Ministers. This meeting, at the end of 1999, will set the global trade agenda for the first decade of the new century. And we are preparing an ambitious and foresighted agenda.

Global services and agriculture negotiations are already scheduled to resume, but we need to look ahead to other complex issues as well. These include government procurement, improved intellectual property protection, global electronic commerce, regulatory reform and bribery and corruption.

END OF THE COLD WAR

The second great challenge our trade policy must face is that created by the end of the Cold War.

When the World War II allies created the WTO's predecessor, the GATT, their work represented a real triumph in technical trade negotiations. It also represented a triumph of vision, because they ultimately decided to include Japan and Germany.

The reintegration of these two countries into world commerce helped cement peace, both in Western Europe and in the Pacific. And today we face an equally profound challenge, with equally great implications for peace in the next century. That is the reintegration of our former Cold War adversaries -- Russia and China; Ukraine, Vietnam and other economies in transition as well -- into the world's rules-based trading system.

For decades these countries operated economies divorced from the world and antithetical to WTO principles. They were somewhat different -- the Soviet economy ran on a very stable system of planned production, while China shifted from the Soviet model to the communes and then to the reform model. But their major features were quite similar. They allowed virtually no private business other than a few foreign factories and small-scale private farms. They had no independent judicial system, and consequently regulated industries by arbitrary command rather than transparent law. They did very little trade with the capitalist world; and they thus little stake in peace and stability beyond their borders.

To return to the market, in the words of a former Central European dissident is like "taking fish soup and making it into an aquarium." It is an immensely difficult task, as we see in Russia and elsewhere. But it is also a possible task, as we have seen in the case of Poland, Hungary, the Czech Republic and other Central European nations. They have built the aquarium, and their ability to conform to the rules of the trading system has helped. As Poland's Trade Minister said last May in Geneva:

"Poland's accession to GATT in 1967 helped us to retain institutional links with the international marketplace ... when my country was still subjected to a political and economic system alien to the aspirations and entrepreneurial spirit of its people. However, it has been only after the transformation process was launched at the turn of the present decade that Poland could assume her full rights and obligations within the system. Our participation in the GATT/WTO framework has helped to consolidate the reform."

Accession to the WTO, under commercially meaningful terms, will thus help these

countries reach the goal. The negotiations we conduct on this question are vastly complex, involving everything from thousands of individual tariffs to copyright law enforcement and scientific food inspection standards. They are often slower than we would like. But the results, as years go by, will be profound: freer markets; openness to the world; transparency; peaceful settlement of disputes; the rule of law. And thus greater prosperity and a more secure peace.

THE 21ST CENTURY ECONOMY

The third challenge is that posed by the scientific and technological revolution.

Science is moving ahead, in every field from the Internet and Electronic Commerce; to pharmaceuticals and medical equipment; agriculture; environmental technologies; and information technology. These are fields in which the US leads the world and can gain immensely from open trade; and they are ways to raise living standards, advance the principles of open society, reduce hunger and improve health worldwide.

Our trade policy thus seeks to fulfill the promise of new technology for better lives as it advances our concrete commercial interest. This is the basis of last year's three landmark trade agreements on information technology, telecommunications, and financial services -- agreements so significant that the WTO's Director General calls them the equivalent of a major trade Round.

The Information Technology Agreement (ITA) will eliminate tariffs on a wide range of global information technology products over the next several years; products that even today make up about one in every thirty dollars of world GDP. And we are moving forward with negotiations for an ITA II for expanded product and country coverage.

The Agreement on Basic Telecommunications includes 70 countries and over 95% of world telecom revenue in a \$750-billion industry. It provides U.S. and foreign companies access to local, long-distance and international service through any network technology, and ensures that U.S. companies can acquire, establish or hold a significant stake in telecom companies around the world. In doing so, it replaces a 60-year tradition of national telecommunications monopolies and closed markets with market opening, deregulation and competition.

Last December, we secured the multilateral Agreement on Global Financial Services, including banking, securities, insurance and financial data services. It covers 95% of the global financial services market, and 102 WTO members now have market-opening commitments in the financial services sectors. They encompass \$18 trillion in global securities assets; \$38 trillion in global (domestic) bank lending; and \$2 trillion in worldwide insurance premiums.

This is only a beginning.

We must extend protection of intellectual property rights beyond basic laws and enforcement to protect new technologies -- everything from genetically engineered plant varieties

to digital video discs and newly developed computer software programs.

We must preserve Internet trade as a duty-free zone. We recently won agreement to a “standstill” for tariffs on electronic transmissions, to make sure global electronic commerce can reach its full potential. That agreement has to be made permanent.

And we must make sure farmers and ranchers can use safe, scientifically proven techniques like biotechnology to make agriculture both more productive and friendly to the environment, without fear of encountering trade discrimination.

THE SUPPORT OF CITIZENS

These challenges take our trade agenda to every part of the world and out into cyberspace. But just as our trade policy begins with our own national interest, so our last great challenge is not abroad but at home. That is, ensuring that as trade grows and becomes more important to our economy and daily lives, that the public will continue to support trade policy.

As everyone here knows, I am sure, trade has become a more controversial and hotly debated topic each year. That is as it should be: we are a democracy, and the public has both the right and responsibility to judge our policies based on principle and on results. And it is up to those of us who support open trade to respond to public concerns.

That means a continuing effective response to this year’s financial crisis.

It means a better effort to ensure that the public has the facts about trade: the importance of exports in our current national prosperity; the high wages that export jobs pay; the role of the trade system in advancing the values of freedom, transparency and the rule of law.

And it means a response to the fears and anxieties many Americans have about trade. Will growing international competition mean a “race to the bottom” that worsens the quality of life by forcing countries to lower environmental standards or labor conditions. We have to address these issues in a serious way.

We must also address some very legitimate concerns about the institutions of trade. As trade grows, its rules and institutions must be open and accessible and responsive to citizens. For example, the World Trade Organization does not let people sit in to watch arguments before dispute settlement panels. That is wrong in itself, and is a natural breeding ground for rumors and misinformation. And the solution is simple -- open it up.

Finally, we need an improved social safety net and an education system which is up to the challenge of a more competitive world. Health insurance, unemployment compensation and job training are there when any worker loses a job. And schools have to make sure kids are ready for demanding, high-skill jobs.

CONCLUSION

None of this will be easy. But let me also say that I am very optimistic about our ability to meet them.

We have a record of success, stretching back fifty years, which has made our country more prosperous; improved our lives; and helped create a more peaceful world.

We have an agenda which I believe will serve our country well.

And -- as I learned this morning at Von Steuben High School -- we have young people who are ready for the challenge.

Thank you very much. And now I will take your questions.